

Contingency Talking Points on the Implications of Default

A widespread declaration of default by major governmental and private creditors of Poland would have a number of likely consequences. On the one hand, it would:

- Relieve Poland from all debt-servicing payments to the West.
- Not affect Poland's capacity to borrow, since this is already nil.
- Marginally improve Poland's import capacity in the short term, insofar as all hard currency export earnings could then be used to cover imports.
- Make Poland more dependent on the USSR at least in the short term, but conversely increase the Soviet burden of having to support Poland.
- Have a significant negative impact on some Western banks; its direct effects on the banking system as a whole would be containable, but ripple effects could be severe for Third World countries and other borrowers.
- Have a much greater but unpredictable impact on the Western banking system if it contributed to even more serious debt servicing problems for other East European countries.

But, on the other hand, it would:

- Have an important psychological impact -- through the open acknowledgment of "bankruptcy" -- on creditors and would-be creditors of other East European states and of the Soviet Union.
- Have a significant, though unmeasurable impact on East-West trade relations, to the greater detriment of the Bloc countries.

-- Not eliminate the underlying long-term need for Poland and all the other Bloc countries to maintain economic and financial ties with the West.

A declaration of default by the US alone in principle should precipitate a widespread declaration of default, but much would depend on the circumstances under which it occurred. If viewed by the West Europeans as a unilateral punitive measure, some governments might even move to prevent the spread of default. In that event, the effects of default outlined above would be considerably muted.